

Message Text

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TO AMEMBASSY PANAMA IMMEDIATE

C O N F I D E N T I A L STATE 023602

FOR ASST SECRETARY ROGERS

FOL REPEAT CARACAS 1111 SENT ACTION SECSTATE JAN 29

QTE

CONFIDENTIAL CARACAS 1111

EO 11652 GDS

TAGS: ENRG, VE

SUBJ: OIL NATIONALIZATION - STATUS REPORT AFTER ONE MONTH

REF: CARACAS 610

1. BEGIN SUMMARY. EXXON CONTINUES TO BE THE ONLY COMPANY DEFINITELY KNOWN TO HAVE SIGNED FORMAL TECHNICAL SERVICE AND OFFTAKE CONTRACTS. SHELL IS BELIEVED TO HAVE REACHED BASIC AGREEMENT ON THE TERMS OF THE CONTRACT, AND MOBIL IS BELIEVED TO HAVE AN AGREEMENT ON 40,000 B/D OF FUEL OIL EXPORTS. MOST OF THE OTHER COMPANIES ARE MOVING CLOSER TO OFFTAKE AGREEMENTS, AND ALL EXCEPT SUN ARE LIFTING OIL IN THE ABSENCE OF FORMAL CONTRACTS. NEGOTIATIONS ON TECHNICAL ASSISTANCE CONTRACTS ARE MOVING SOMEWHAT SLOWER. AMOCO IS THE ONLY COMPANY BELIEVED TO HAVE RECEIVED ITS COMPENSATION BONDS TO DATE. IT HAS NOT RECUPERATED ITS CASH DEPOSIT IN THE GUARANTY FUND. THE OTHER COMPANIES ARE SCHEDULED TO RECEIVE
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THEIR COMPENSATION BONDS BY FEB 15, AND HAVE ADOPTED A WAIT-AND-SEE ATTITUDE ABOUT RECOVERY OF THE CASH DEPOSITS. THE DEPOSITS TOTAL ABOUT \$125 MILLION. PETROVEN IS HONORING ITS AGREEMENT TO PAY CASH FOR OIL INVENTORIES.

CURRENT LIFTINGS BY THE FORMER CONCESSIONAIRES TOTAL
JUST OVER 1.5 MILLION
B/DMX. THREE REFINERIES ARE CLOSED
AND TWO MORE ARE PARTIALLY SHUT DOWN. END SUMMARY.

2. CONTRACT NEGOTIATIONS - AFTER ONE MONTH OF NATION-
ALIZATION, ONLY EXXON IS KNOWN TO HAVE DEFINITELY SIGNED
FORMAL TECHNICAL SERVICE AND OFFTAKE CONTRACTS. IT IS
ASSUMED THAT SHELL HAS AGREED TO BASIC TERMS (THE COMPANY
SUBMITTED ITS LETTER OF INTENT FOR CRUDE PURCHASES TO
PETROVEN ON JAN 14), BUT WE HAVE CONFIRMED THAT
IT HAS NOT FORMALLY SIGNED CONTRACTS. OTHER COMPANIES ARE
MAKING DEFINITE PROGRESS BUT HAVE NOT REACHED THE
SIGNING STAGE AS YET. MINIES MIINISTRY HYDROCARBONS
DIRECTOR, AREVALO REYES, EXPECTS THE CONTRACTS WILL BE
SIGNED NEXT WEEK WITH TEXACO, GULF, AMOCO AND PHILLIPS,
BUT HE MAY BE OVERLY OPTIMISTIC. HE ALSO EXPECTS TO
SIGN WITH MOBIL, WITHWHOM HE CONFIRMED THAT THERE
ALREADY IS A PARTIAL AGREEMENT ON THE VOLUME OF FUEL
OIL THE COMPANY HAS CONTINUED TO EXPORT REGULARLY.

3. GULF REPRESENTATIVE, LUSI ALCALA SURCE, TOLD US ON
JAN 27 THAT THIS COMPANY HAS TABLE A DRAFT OFFTAKE
CONTRACT WITH PETROVEN AND A DRAFT TECHNICAL ASSISTANCE
CONTRACT WITH THE MINES MINISTRY, BUT CANNOT ESTIMATE
WHEN AGREEMENT WILL BE REACHED. HE DOES NOT CONSIDER
HIS COMPANY TO BE IN CONFRONTATION WITH THE GOV. THERE
ARE MANY PROBLEMS, HE RECONGIZES, BUT BELIEVES THAT
AGREEMENTS CAN BE REACHED WITH PATIENCE ON THE PART OF
THE COMPANY. IN THE MEANTIME, GULF IS LIFTING 100,000 B/D
AT THE PRICES ESTABLISHED BY PETROVEN WITOUT A CONTRACT.
THIS IS THE QUANTITY THE COMPANY INFORMED THE EMBASSY
IT WOULD TAKE WHEN IT BECAME APPARENT THAT THE GOV OIL
PRICE OFFER WAS NOT NEGOTIABLE (CARACAS 13458).

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4. AMOCO HANDED A LETTER OF INTENT FOR CRUDE OIL
PURCHASES, ADDRESSED TO PETROVEN, TO THE MINES MINISTRY
ON JAN 14. THE COMPANY OFFERED TO COMMIT TO PURCHASE
AN AVERAGE 18,000 B/D OF ORINOCO HEAVY CRUDE AT THE OFFERED
PRICE (ABOUT \$9.50). ONLY THE BOILER PLATE LANGUAGE REMAINS
TO BE NEGOTIATED BEFORE THIS CONTRACT IS READY TO SIGN.
HOEVER, THE TECHNICALSERVICES CONTRACT NEGOTIATIONS WITH THE
MINES MINISTRY ARE NOT AS CLOSE TO BEING CONCLUDED, ACCORDING
TO THE COMPANY REPRESENTATIVE HOWARD DALTON.

5. ARCO HAS AGREED TO PURCHASE 30,000 B/D OF LAGO
MEDIO CRUDE, AND HAS ALREADY TAKEN A COUPLE OF SHIPMENTS.
THE BASIC PRICE, REPORTED BY PIW TO BE \$12.40, WAS UN-

CHANGED. HOWEVER, ARCO REPRESENTATIVE, HUGH SHEFFIELD, TOLD US THAT PETROVEN AGREED TO SOMEWHAT BETTER CREDIT TERMS AND TO THE ELIMINATION OF GRAVITY DIFFERENTIALS, WHICH RESULTED IN A NET REDUCTION OF ABOUT 10 CENTS PER BARREL. ARCO TURNED IN A FIRST DRAFT OF A TECHNICAL SERVICE CONTRACT TO THE MINES MINISTRY ON JAN 28. SHEFFIELD BELIEVES THAT THE COMPANY HAS MADE ABOUT THE BEST DEAL IT CAN. THE EIGHT CENT SERVICE FEE, COMBINED WITH THE 10 CENT SAVINGS OFF THE QUOTED PRICE, HAS MADE IT FEASIBLE FOR ARCO TO LIFT THE ABOVE QUANTITY. LATER IN THE YEAR, DEPENDING ON CONDITIONS THEN PREVAILING, THE COMPANY MIGHT INCREASE ITS LIFTINGS.

6. CHEVRON REPRESENTATIVE, RONALD KITCH, HAS RECEIVED DRAFT CONTRACTS FROM SAN FRANCISCO AND IS HAVING TRANSLATIONS INTO SPANISH DONE BEFORE SUBMITTING THEM TO THE MINES MINISTRY. HE IS ALSO STILL IN THE PROCESS OF REGISTERING CHEVRON'S NEW COMPANY WHICH WILL ADMINISTER THE TECHNICAL SERVICE CONTRACT. CHEVRON LIFTED A CARGO OF 175,000 BARRELS OF FUEL OIL THIS WEEK, AND WILL TAKE A SIMILAR CARGO NEXT WEEK. IN FEBRUARY IT WILL SHIP 85,000 BARRELS OF BOSCAN CRUDE TO AN ASPHALT REFINERY IN GERMANY. KITCH EXPECTS TO INCORPORATE THESE LIFTINGS INTO THE OFFTAKE CONTRACT OF 25,000 B/D WHEN IT IS CONCLUDED. KITCH EXPLAINED THAT HE HAS HAD TO REQUEST A PRICE QUOTATION FROM PETROVEN FOR EACH OF THE ABOVE ORDERS, AND THE PRICE HAS NOT VARIED FROM THE ORIGINAL \$10 OFFER. KITCH HOPES TO CONCLUDE
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CONTRACT NEGOTIATIONS WITHIN THE FIRST TWO WEEKS OF FEB.

7. SUN LAWYER, HARRY COLLINS, TOLD THE EMBASSY LAST WEEK THAT HIS COMPANY HAS NOT YET TAKEN ANY OIL AND CONTRACT NEGOTIATIONS ARE FAR FROM BEING COMPLETED. THERE HAS BEEN A HOME OFFICE REORGANIZATION AND THE OFFICIAL WHO WAS MOST CLOSELY FOLLOWING NATIONALIZATION EVENTS FROM THE LEGAL ANGLE, JOHN WARD, HAS MOVED TO ANOTHER POSITION. SUN HAD NO FOREIGN TECHNICIANS IN THE VENEZUELAN AFFILIATE, EXCEPT FOR COLLINS WHO COMMUTED BETWEEN CARACAS AND PHILADELPHIA DURING THE YEAR LEADING UP TO NATIONALIZATION. COLLINS TOLD US THAT, AS A RESULT OF THIS LACK OF CLOSE CONTACT, THERE IS ALREADY A DEFINITE STRAIN BETWEEN SUN AND ITS EMPLOYEES NOW RUNNING PALMAVEN. COLLINS BELIEVES THERE IS ALREADY EVIDENCE THAT PALMAVEN INTENDS TO DRAW HEAVILY ON THE GUARANTY FUND ACCOUNT OF SUN FOR VARIOUS PROJECTS, AND THIS REINFORCES HIS BELIEF THAT SUN WILL NEVER SEE THE TWENTY PERCENT OF ITS COMPENSATION TO BE RETAINED FOR THREE YEARS IN THE FUND. FIRST EVIDENCE OF THIS, ACCORDING TO COLLINS, WAS A REQUEST BY PALMAVEN

FOR REFITTING OF AN ABANDONED AND STRIPPED FLOOD CONTROL STATION ON LAKE MARACAIBO. COLLINS CLAIMED THAT SUN MADE A MISTAKE BY CARRYING THE FACILITY ON THE BOOKS AT A NET BOOK VALUE OF \$42,000 INSTEAD OF WRITING IT OFF. PALMAVEN NOW WANTS TO DRAW AN ESTAIMATED \$200,000 FROM THE FUND TO OVERHAUL THE STATION. COLLINS ALSO CLAIMS PALMAVEN IS BUYING EXECUTIVE TYPEWRITERS AND OTHER MODERN OFFICE FIXTURES TO BE CHARGED TO THE FUND.

8. COMPENSATION BONDS - EXCEPT FOR AMOCO THE FORMER CONCESSIONAIRES HAVE YET TO RECEIVE THEIR BONDS. THE CENTRAL BANK PLEADED INSUFFICIENT TIME TO PREPARE THESE INSTRUMENTS IN THE VARIOUS NAMES THE COMPANIES HAD ASSIGNED THEM TO IN ORDER TO AVOID INJUNCTIONS. THE BONDS ARE NOW TO BE DELIVERED ON FEBRUARY 15. AMOCO MADE NO CHANGE IN THE ASSIGNEE AND GOT ITS BONDS ON JAN 1. BUT THE COMPANY DID NOT RECEIVE THE \$750,000 IN CASH IT HAS ON DEPOSIT IN THE GUARANTY FUND. RATHER THE CENTRAL BANK CALCULATED THE AMOUNT REQUIRED ABOVE THE CASH DEPOSIT TO BRING THE WITHHOLDING UP TO THE NECESSARY 10 PERCENT OF AMOCO'S GROSS INVESTMENT

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AND RETAINED COMPENSATION BONDS IN THAT SUM. AMOCO (AS WELL AS OTHER COMPANIES) HAS A SIDE LETTER FROM THE MINISTER OF MINES INDICATING THAT ITS CASH BALANCE IN THE GUARANTY FUND COULD BE REPLACED BY BONDS. BUT THE COMPANY'S APPEALS TO THE CENTRAL BANK AND FINANCE MINISTRY HAVE SO FAR BEEN UNAVAILING.

9. AMOCO NOW HOPES FOR THE CASH REFUND WHEN 80 PERCENT OF THE AMOUNT IT HAS IN THE GUARANTY FUND IS RELEASED TO THE COMPANY. INSPECTION OF THE COMPANY'S FIELD INSTALLATIONS HAS BEEN COMPLETED, AND THE OFFICE INSPECTION IS NOW TAKING PLACE. DALTON ANTICIPATES THAT THE FULL INSPECTION WILL BE COMPLETED AND THE 80 PERCENT RELEASED IN FEBRUARY. THE MOMENT OF TRUTH WILL CERTAINLY COME NO LATER THAN FEBRUARY 15 BY WHICH DATE THE OTHER COMPANIES ARE SCHEDULED TO RECEIVE THEIR BONDS. MOST COMPANIES HAVE A WAIT-AND-SEE ATTITUDE ABOUT RECOVERING THEIR CASH. IT IS SHEFFIELD'S (ARCO) UNDERSTANDING THAT THE GOV WILL FOLLOW THE PROCEDURE OF AUTHORIZING THE GUARANTY FUND TO "INVEST" IN THE COMPENSATION BONDS. THIS PROCEDURE WOULD ALLOW THE FUND TO PAY EACH COMPANY CASH FOR BONDS EQUIVALENT TO THE CASE ON DEPOSIT, AND PRESUMABLY, WOULD NOT REQUIRE AN AUTHORIZING DECREE OR REGULATION TO IMPLEMENT. COLLINS (SUN) HAS THE SAME UNDERSTANDING, BUT IS AFRAID THAT SOMEHOW THE GOV WILL APPLY THIS PROCEDURE IN AN ARBITRARY FASHION. THE PETROLEUM ATTACHE ASKED HYDROCARBONS DIRECTOR REYES ON JANUARY 27 IF THE COMPANIES WILL RECEIVE THEIR CASH FROM THE FUND. HE REPLIED THAT HE WAS AWARE OF AMOCO'S INSISTENCE ON THIS POINT, AND WOULD ADD ONLY THAT THE MATTER WILL BE RESOLVED.

10. CASH PAYMENT FOR OIL INVENTORIES - IPC REPRESENTA-

TIVE, JOHN DAILEY, AND OTHER OIL COMPANY CONTACTS, REPORT THAT PETROVEN HAS PROMPTLY ACKNOWLEDGED, AND NOT QUESTIONED, VOUCHERS SUBMITTED FOR OIL INVENTORIES THE CONCESSIONAIRES HELD AS OF DECEMBER 31, 1975.

DAILEY SAID THAT IPC OIL STOCKS WERE RALATIVELY HIGH ON THAT DATE, AND HE IS GRATIFIED THAT THE GOV IS HONORING THIS AGREEMENT. PAYMENT WILL BE IN THREEE MONTHLY TRANCHES. OTHER COMPANIES CONTACTED REPORTED NORMAL STOCKS, EXCEPT FOR AMOCO, WHICH INEXPLICABLY ELECTED TO EMPTY ITS TORAGE TANKS PRIOR TO NATIONALIZATION, CONFIDENTIAL

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THUS LOSING OUT ON A GUARANTEED TWENTY CENT PER BARREL PROFIT.

11. CURRENT OFFTAKE - AREVALO REYES TOLD THE PETROLEUM ATTACHE ON JANUARY 27 THAT HE DID NOT EXPECT 1976PRODUCTION TO AVERAGE 2.2 MILLION B/D, AS HIS MINISTER AND OTHER GOV OFFICIALS CONTINUE TO FORECAST. CURRENT AND EXPECTED OFFTAKE IS AS FOLLOWS, REYES NOTED:

| | CURRENT | EXPECTED |
|-------|---------|----------|
| EXXON | 800,000 | 965,000 |

| | | |
|-------|---------|--|
| SHELL | 450,000 | |
|-------|---------|--|

| | | |
|------|---------|--|
| GULF | 100,000 | |
|------|---------|--|

| | | |
|----------|--------|--|
| PHILLIPS | 50,000 | |
|----------|--------|--|

| | | |
|-------|--------|--|
| MOBIL | 40,000 | |
|-------|--------|--|

| | | |
|--------|--------|--------|
| TEXACO | 35,000 | 70,000 |
|--------|--------|--------|

| | | |
|------|--|----------|
| ARCO | | (30,000) |
|------|--|----------|

| | | |
|---------|--|--------|
| CHEVRON | | 25,000 |
|---------|--|--------|

| | | |
|-------|--------|--|
| AMOCO | 17,000 | |
|-------|--------|--|

| | | |
|-----|--|---|
| SUN | | ? |
|-----|--|---|

| | | |
|-----|--------|--|
| CVP | 20,000 | |
|-----|--------|--|

| | | |
|---------|--|--|
| TALOVEN | | |
|---------|--|--|

| | | |
|----------|--------|----------|
| GUARIVEN | 15,000 | COMBINED |
| VISTAVEN | | |

| | | |
|--------|-----------|-----------|
| TOTALS | 1,527,000 | 1,782,000 |
|--------|-----------|-----------|

(UNDER EXPECTED COLUMN, BLANK SPACES INDICATE WE ARE

ASSUMING NO IMMEDIATE CHANGE FROM CURRENT OFFTAKE.
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SUN HAS NOT YET OFFERED TO BUY.) REYES DID NOT GIVE A
FIGURE FOR ARCO, AND PROBABLY HAD NOT BEEN INFORMED
BY THE COMPANY OF ITS DECISION TO LIFT. TEXACO WILL
SHORTLY DOUBLE ITS OFFTAKE. FIGURE FOR EXXON IS
CONTRACT AVERAGE SIGNED.

12. REFINERY STATUS - CURRENT REFINERY THROUGHPUT IS
668,000 B/D, WHICH REYES STATES IS 52 PERCENT OF CAPACITY.
THIS IMPLIES THAT PUBLISHED CAPACITY LEVELS OF 1.5 MILLION
B/D ARE NO LONGER ACCURATE. THE CVP MORON REFINERY AND
THE FORMER CHEVRON BAJO GRANDE REFINERIES ARE CLOSED.
THE FORMER CREOLE QUIRIQUIRE REFINERY AT CARIPITO IS
ALSO CLOSED, BUT IN A CONSTANT CYCLING OF THE SAME OIL
MODE TO KEEP THE PLANT OPERATIONAL. THE EL CHAURE RE-
FINERY AT PUERTO LA CRUZ (FORMERLY ARCO) AND THE VENEGREF
REFINERY (FORMERLY GULF & TEXACO) AT PUERTO LA CRUZ ARE
OPERATING HALF SHUT DOWN.

13. COMMENT - THE ONLY COMPANY STILL HOLDING A HARD LINE ON
CONTRACT NEGOTIATIONS APPEARS TO BE SUN.
THE OTHER COMPANIES HAVE APPARENTLY DECIDED TO ACCEPT SOME DEGREE
OF OFFTAKE AT THE PETROVEN PRICE RATHER THAN OPT OUT.
IN THE CASE OF SOME COMPANIES, SUCH AS CHEVRON, THE
PRESENT STRATEGY MAY BE TO HOLD OFF FORMAL CONTRACT
SIGNING UNTIL THE SECOND QUARTER IN THE EXPECTATION OF
A BETTER PRICE. PETROVEN WILL BEGIN SECON QUARTER
PRICE NEGOTIATIONS BEFORE THE END OF FEBRUARY.

14. THE KEY QUESTIONS AT THE MOMENT IS WHETHER THE GOV WILL
ALLOW THE COMPANIES TO RETIREVE THEIRCASH ON DEPOSIT IN THE
GUARANTY FUND. THE GOV'S RECORD ON THIS KIND OF COMMITMENT
TO THE COMPANIES HAS SO FAR BEEN GOOD. BUT IT WILL BE PAINFUL
FOR THE GOV TO PAY OUT THE \$125 MILLION IN CASH NOW IN THE FUND
GIVEN DECLINING OIL REVENUES AND THE EVEN LARGER PAYMENTS DUE
THIS FIRST QUARTER FOR MATRIALS AND OIL INVENTORIES. THE GOV
STILL HAS TWO WEEKS TO WORK THIS ISSUE OUT WITH THE COMPANIES.
END COMMENT.
SHLAUDEMAN

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